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Section 285.305

CONSUMERS ILLINOIS WATER COMPANY

Financial Statements

December 31, 1999 and 1998

(With Independent Auditors' Report Thereon)



1600 Market Street
Philadelphia, PA 19103-7212

Independent Auditors' Report

The Board of Directors
Consumers Illinois Water Company:

We have audited the accompanying balance sheet of Consumers Illinois Water Company as of December 31, 1999, and the related statements of income and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of Consumers Illinois Water Company as of December 31, 1998, were audited by other auditors whose report thereon dated February 10, 1999 (except with respect to the matter discussed in Note 10, as to which the date was March 10, 1999), expressed an unqualified opinion on those statements, before the reclassifications described in Note 2 to the financial statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1999 financial statements referred to above present fairly, in all material respects, the financial position of Consumers Illinois Water Company as of December 31, 1999, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

We also audited the reclassifications described in Note 2 that were applied to reclassify certain amounts in the 1998 financial statements. In our opinion, such reclassifications are appropriate and have been properly applied.

KPMG LLP

March 6, 2000



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CONSUMERS ILLINOIS WATER COMPANY
Balance Sheets
December 31, 1999 and 1998

Assets	1999	1998	Liabilities and Stockholders' Equity	1999	1998
Utility plant, including construction work in progress of \$2,242,911 and \$712,300	\$140,031,787	\$132,404,162	Common stockholder's equity:		
Less accumulated depreciation	(35,603,987)	(32,076,448)	Common stock, \$5 par value, 750,000 shares authorized and 596,720 shares issued and outstanding	\$ 2,983,600	\$ 2,983,600
Net utility plant	104,427,800	100,327,714	Capital surplus	22,684,929	22,604,919
			Retained earnings	12,281,085	11,071,431
			Total common stockholder's equity	37,949,614	36,659,950
Investment in nonutility property, net of accumulated depreciation	831,331	700,075	Preferred stock, \$100 par value, 5,000 shares authorized and 4,000 shares issued and outstanding	400,000	400,000
Current assets:			Long-term debt, excluding current portion	37,370,377	37,394,803
Cash	514,672	1,715,429	Current liabilities:		
Accounts receivable, less allowance for doubtful accounts of \$147,504 and \$293,756	2,932,284	2,765,225	Current portion of long-term debt	20,000	15,000
Unbilled revenues	872,171	729,639	Loans payable	2,500,000	1,500,000
Inventory, materials and supplies	411,677	548,994	Accounts payable	968,843	1,921,991
Prepayments and other current assets	30,486	157,233	Accrued interest	885,650	949,244
Federal and state income taxes	-	206,786	Federal and state income taxes	197,647	-
Total current assets	4,761,290	6,123,306	Other accrued liabilities	2,185,867	2,826,045
			Total current liabilities	6,758,007	7,212,280
Deferred charges:			Deferred credits and other liabilities:		
Debt issuance expense, net of amortization	1,989,768	2,094,266	Customers' advances for construction	2,870,962	2,452,137
Other deferred items, net	1,705,132	3,016,072	Contributions in aid of construction	19,056,554	19,050,045
Total deferred charges	3,694,900	5,110,338	Deferred income taxes and investment tax credits	8,231,053	7,843,547
			Regulatory liability	759,326	862,676
			Other	319,428	385,995
			Total deferred credits and other liabilities	31,237,323	30,594,400
	\$113,715,321	\$112,261,433		\$113,715,321	\$112,261,433

See accompanying notes to financial statements.

CONSUMERS ILLINOIS WATER COMPANY

Statements of Income Years ended December 31, 1999 and 1998

	1999	1998
Operating revenue	\$ 24,968,945	\$ 22,943,961
Operating expenses and taxes:		
Operation expenses	9,540,342	9,066,745
Maintenance expenses	1,280,840	1,191,810
Depreciation	3,280,552	3,068,064
Amortization	576,886	446,002
Taxes, other than income taxes	1,387,299	1,322,065
Provision for income taxes	2,110,710	1,706,708
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Total operating expenses and taxes	18,176,629	16,801,394
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Net operating income	6,792,316	6,142,567
Income deductions:		
Interest on long-term debt	2,999,850	2,999,850
Other interest expense	35,393	127,215
Allowance for funds used during construction	(55,215)	(1,219)
Loss (gain) on sale of land	(129,364)	6,674
Amortization of debt expense, net	104,498	111,424
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Total income deductions	2,955,162	3,243,944
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Net income	3,837,154	2,898,623
Preferred stock dividends	(16,500)	(22,000)
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Net income available to common stock	\$ 3,820,654	\$ 2,876,623
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See accompanying notes to financial statements.

CONSUMERS ILLINOIS WATER COMPANY
Statements of Cash Flow

Years ended December 31, 1999 and 1998

	1999	1998
Cash flows from operating activities:		
Net income	\$ 3,837,154	\$ 2,898,623
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	3,961,936	3,625,490
Deferred income taxes	284,156	536,900
Loss (gain) on sale of land	(129,364)	6,674
Net increase in receivables, unbilled revenue, inventory and prepayments	(45,527)	(204,529)
Net increase (decrease) in payables and accruals	(101,353)	876,251
Net decrease in accrued interest	(63,594)	-
Other	(513,331)	(687,240)
Net cash flows from operating activities	<u>7,230,077</u>	<u>7,052,169</u>
Cash flows from investing activities:		
Utility plant additions, including allowance for funds used during construction of \$55,215 and \$1,219	(5,877,262)	(4,965,945)
Acquisitions of water systems	(975,151)	(51,500)
Proceeds from sale of land	154,570	-
Net cash flows used in investing activities	<u>(6,697,843)</u>	<u>(5,017,445)</u>
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	835,931	316,256
Repayments of customers' advances	(44,496)	-
Net proceeds (repayments) of short-term debt	1,000,000	(2,600,000)
Repayments of long-term debt	(19,426)	(15,984)
Proceeds from issuing common stock	-	3,996,000
Dividends paid	(3,505,000)	(2,491,500)
Other	-	(38,641)
Net cash flows used in financing activities	<u>(1,732,991)</u>	<u>(833,869)</u>
Net increase (decrease) in cash	(1,200,757)	1,200,855
Cash balance beginning of year	1,715,429	514,574
Cash balance end of year	<u>\$ 514,672</u>	<u>\$ 1,715,429</u>

See Income Taxes footnote for description of non-cash operating activities.

See accompanying notes to financial statements.

Notes to Financial Statements

1. Summary of Significant Accounting PoliciesNature of Operations

Consumers Illinois Water Company (the "Company") is a regulated public utility which supplies water to residential, commercial and industrial customers. All of the Company's customers are located in Illinois. The Company is also engaged in providing wastewater services. No single customer accounted for more than one percent of the Company's operating revenues in 1999. The Company is a wholly-owned subsidiary of Consumers Water Company ("CWC"). On March 10, 1999, Philadelphia Suburban Corporation ("PSC") issued 13,014,015 shares of Common Stock in exchange for all of the outstanding shares of CWC and, accordingly, CWC became a wholly-owned subsidiary of PSC.

Recognition of Revenues, Accounts Receivable and Unbilled Water Revenues

Operating revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period.

Regulation

As a regulated public water utility, the Company is subject to regulation by the Illinois Commerce Commission ("ICC"), who has jurisdiction with respect to rates, service, accounting procedures, acquisitions and other matters. Accordingly, the Company is required to record the effects of regulation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71. Under SFAS 71, the Company must defer certain costs and credits as regulatory assets and liabilities when it is probable that such amounts will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company.

Utility Plant and Depreciation

Utility plant is stated at cost which includes contracted cost, direct labor and fringe benefits, materials, overheads, and for certain utility plant, an allowance for the cost of funds used during construction. Water systems acquired are recorded at estimated original cost when first devoted to utility service and the applicable depreciation is recorded in accumulated depreciation. The difference, if any, between the estimated original cost, less applicable depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 1999, utility plant includes a net acquisition adjustment of \$156,899, which is being amortized over 40 years.

Expenditures for maintenance and repairs, including minor renewals and betterments, are charged to operating expenses in accordance with the Uniform System of Accounts prescribed by the ICC. The cost of new units of property and betterments are capitalized. When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation.

The straight-line remaining life method is used to compute depreciation on utility plant. The straight-line method is used with respect to transportation and mechanical equipment. Depreciation is recorded over the estimated useful lives of the assets, which range from 2 to 67 years.

In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of", the long-lived assets of the Company, primarily Utility Plant in Service, have been reviewed for impairment. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Depreciation expense in 1999 and 1998 stated as a percentage of the average depreciable utility plant as of December 31, 1999 and 1998 (exclusive of construction work in progress and contributed property) was 2.98% and 2.92 %, respectively. Accumulated depreciation at December 31, 1999 and 1998, stated on such basis, was 32.33 % and 30.60%, respectively.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. AFUDC is applied to construction projects requiring more than two months to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated.

Deferred Charges

Deferred bond and preferred stock issuance expenses are amortized by the straight-line method over the life of the related issues.

Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and included in issuance expense amortized over the life of the long-term debt used to fund the redemption.

Expenses associated with filing for rate increases are deferred and amortized over the period of the rate recovery. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery.

Income Taxes

The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse.

The Company's earnings are included with those of its parent company and affiliated companies for purposes of filing a Federal income tax return. Accordingly, the liability for Federal income taxes is remitted to the parent company.

Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

Customers' Advances for Construction

Water mains or, in some instances, cash advances to reimburse the Company its costs to construct water mains, are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction.

Contributions in Aid of Construction

Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable. Amortization of contributions in aid of construction is recorded using the composite depreciation rates for depreciable property in service. The balance of contributions in aid of construction at December 31, 1999 and 1998, is net of accumulated amortization of \$5,562,312 and \$5,196,211, respectively.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)Inventory, Materials and Supplies

Inventory is stated at cost, not in excess of market value. Cost is determined using the average cost method.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Reclassifications

Certain prior year amounts have been reclassified to conform with current year's presentations.

3. Acquisitions

In November 1999, the Company acquired the water utility assets of the Village of Bradley, a municipality within the Company's existing service territory. The system was acquired for \$975,151 in cash.

In November 1998, the Company acquired the water utility assets of the Highland Subdivision. This system was purchased from the Village of Aroma Park for \$51,500 in cash.

The proforma effects of these acquisitions were immaterial for all periods presented.

4. Income Taxes

The provision for income taxes is composed of the following:

	<u>Years ended December 31,</u>	
	<u>1999</u>	<u>1998</u>
Current:		
Federal	\$ 1,471,908	\$ 974,932
State	278,420	212,295
	<u>1,750,328</u>	<u>1,187,227</u>
Deferred:		
Federal	268,267	398,649
State	92,115	120,832
	<u>360,382</u>	<u>519,481</u>
Total tax expense	<u>\$ 2,110,710</u>	<u>\$ 1,706,708</u>

Notes to Financial Statements

4. Income Taxes (Continued)

The significant components of deferred income tax expense are as follows:

	Years ended December 31,	
	1999	1998
Excess of tax over financial statement depreciation	\$ 526,587	\$ 568,740
Amortization of deferred investment tax credits	(49,938)	(48,250)
Differences in basis of fixed assets due to variations in tax and book accounting methods that reverse through depreciation	(27,800)	33,819
Pension, deferred compensation and other postretirement benefits	(5,607)	9,808
Other, net	(82,860)	(44,636)
Total deferred income tax expense	<u>\$ 360,382</u>	<u>\$ 519,481</u>

The statutory Federal tax rate is 35% for 1999 and 34% for 1998. The Illinois Corporate Net Income Tax rate is 7.18% for both years presented.

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before Federal Tax and the actual Federal tax expense are as follows:

	Years ended December 31,	
	1999	1998
Computed Federal tax expense at statutory rate	\$ 1,952,115	\$ 1,451,974
Merger transaction costs	28,003	-
Amortization of deferred investment tax credits	(49,938)	(48,250)
Preferred stock dividend	(1,042)	(1,011)
Other, net	(188,963)	(29,132)
Actual Federal tax expense	<u>\$ 1,740,175</u>	<u>\$ 1,373,581</u>

Notes to Financial Statements

4. Income Taxes (Continued)

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	1999	1998
Deferred tax assets:		
Customers' advances for construction	\$ 3,655,000	\$ 3,655,000
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	462,000	272,000
Alternative minimum tax	385,000	331,000
Other	812,000	63,000
Total gross deferred tax assets	5,314,000	4,321,000
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	12,355,661	11,052,389
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	147,000	40,297
Deferred investment tax credit	1,042,392	1,071,861
Total gross deferred tax liabilities	13,545,053	12,164,547
Net deferred tax liability	\$ 8,231,053	\$ 7,843,547

The Company made income tax payments of \$1,439,634 and \$1,375,053 in 1999 and 1998, respectively. CWC's Federal income tax returns for all years through 1995 have been closed.

5. Regulatory Liability

The regulatory liability of \$759,326 and \$862,676 as of December 31, 1999 and 1998 represents deferred income taxes to be refunded to customers in future rates. Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be refunded to customers as they reverse.

Notes to Financial Statements

6. Commitments

The Company leases buildings, vehicles, and other equipment under operating leases that are non-cancellable. During the next five years, \$65,814 of future minimum lease payments are due: \$20,588 in 2000, \$20,588 in 2001, \$18,196 in 2002, \$6,442 in 2003 and \$0 in 2004. Rent expense was \$83,304 and \$42,102 for the years ended December 31, 1999 and 1998, respectively.

7. Contingencies

Elevated levels of nitrate have been observed in the Vermillion River, a water supply source for the Company. The Company has performed engineering studies to determine the best alternative to reduce the nitrate levels in the water supply. Based on these studies, construction of a nitrate-removal facility began in 1999 and is expected to be completed by the end of 2000 for a total cost of approximately \$6,300,000. As of December 31, 1999, \$1,410,000 has been incurred and included in construction-work-in-progress. The Company's management is confident that these capital expenditures will be fully recoverable in water rates through the normal regulatory process.

8. Long-term Debt and Loans Payable

The long-term debt and loans outstanding as of December 31, 1999 and 1998 are summarized as follows:

	December 31,	
	1999	1998
First Mortgage Bonds secured by utility plant:		
6.00% to 6.49%	\$ 12,800,000	\$ 12,800,000
7.50% to 7.99%	8,000,000	8,000,000
9.00% to 9.49%	6,000,000	6,000,000
9.50% to 9.99%	4,500,000	4,500,000
10.00% to 10.49%	6,000,000	6,000,000
Total First Mortgage Bonds	37,300,000	37,300,000
Non-interest bearing note payable, annual formula-based payments until paid	90,377	109,803
	37,390,377	37,409,803
Current portion of long-term debt	20,000	15,000
Long-term debt, excluding current portion	\$ 37,370,377	\$ 37,394,803

Notes to Financial Statements

8. Long-term Debt and Loans Payable (Continued)

The mortgage indenture, as supplemented, restricts the ability of the Company to declare dividends with respect to certain issues of the First Mortgage Bonds. The Company was in compliance with all applicable covenants as of December 31, 1999. During the next five years, \$90,377 of debt maturities are due: \$20,000 annually in 2000 through 2003 and \$10,377 in 2004.

At December 31, 1999 and 1998, the Company had short-term lines of credit available totaling \$17,800,000 and \$25,300,000, respectively. Funds borrowed under these lines are classified as loans payable and are used primarily for temporary financing of utility plant additions. The average borrowing under the lines was \$1,653,846 and \$2,969,231 during 1999 and 1998, respectively. The maximum amount outstanding at the end of any one month was \$2,500,000 in 1999 and \$5,600,000 in 1998. The average cost of borrowings under these lines during 1999 and 1998 were 6.05% and 6.96%, respectively.

The total amount of interest paid on all borrowings, net of amounts capitalized, was \$3,108,315 and \$3,316,738 in 1999 and 1998, respectively.

9. Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair values as of the dates presented. The carrying amount of the Company's long-term debt as of December 31, 1999 and 1998 is \$37,390,377 and \$37,409,803, respectively. The estimated fair value of the Company's long-term debt as of December 31, 1999 and 1998 is \$36,158,060 and \$40,969,098, respectively. The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration.

The Company's customers' advances for construction has a carrying value of \$2,870,962 and \$2,452,137 at December 31, 1999 and 1998, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are refundable, under certain circumstances, either wholly or in part over varying periods of time, and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Notes to Financial Statements

10. Preferred Stock

The Company's preferred stock has a 5.50% cumulative dividend rate and is callable at \$107.50 per share. Of the 5,000 shares authorized, 4,000 shares have been issued. During 1999 and 1998, dividends were declared of \$16,500 and \$22,000, respectively.

11. Common Stock

During 1998, the Company issued 66,000 shares of common stock to CWC for \$3,996,000 in cash. During 1999 and 1998, dividends were declared of \$2,611,000 and \$2,469,500, respectively.

12. Pension Plans and Other Postretirement Benefits

Substantially all of the Company's employees are covered by the Consumers Water Company Retirement Plan (a defined benefit plan). Retirement benefits under the plan are generally based on the employee's total years of service and compensation during the last five years of employment. CWC's policy is to fund this plan annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. CWC also has a non-qualified Supplemental Executive Retirement Plan for certain severed employees. The net pension cost for CWC for the years ended December 31, 1999 and 1998, were \$550,798 and \$8,023, respectively. Since separate company information is not available, the net pension costs and obligations of the qualified and non-qualified plans of CWC are included in the tables which follow.

In addition to providing pension benefits, CWC offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits for all eligible retirees and a life insurance policy for eligible union retirees. CWC funds its gross PBOP cost through various trust accounts. The net PBOP cost for CWC for the years ended December 31, 1999 and 1998, were \$478,900 and \$418,700, respectively.

CWC has adopted the delayed recognition method under which the unrecorded SFAS 106 liability as of January 1, 1993, will be amortized to expense on a straight-line basis over a 20-year period.

Notes to Financial Statements

12. Pension Plans and Other Postretirement Benefits (Continued)

CWC's pension expense includes the following components:

	Years Ended December 31,	
	1999	1998
Benefits earned during the year	\$ 1,393,392	\$ 1,238,698
Interest cost on projected benefit obligation	2,954,190	2,692,752
Expected return on plan assets	(4,190,826)	(3,763,713)
Net amortization and deferral	(81,751)	(215,560)
Special termination benefits	475,793	55,846
Net pension cost	<u>\$ 550,798</u>	<u>\$ 8,023</u>

During 1999 and 1998, CWC instituted early retirement and restructuring programs which resulted in additional termination benefits and curtailment losses of \$475,793 in 1999 and \$55,846 in 1998.

CWC's costs for postretirement benefits other than pensions includes the following components:

	Years Ended December 31,	
	1999	1998
Benefits earned during the year	\$ 100,300	\$ 90,600
Interest cost	288,300	251,600
Expected return on plan assets	(53,300)	(22,700)
Net amortization and deferral	143,600	99,200
Net PBOP cost	<u>\$ 478,900</u>	<u>\$ 418,700</u>

Notes to Financial Statements

12. Pension Plans and Other Postretirement Benefits (Continued)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of CWC's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 42,994,646	\$ 36,216,111	\$ 3,768,424	\$ 3,479,822
Service cost	1,393,392	1,238,698	100,300	90,600
Interest cost	2,954,190	2,692,752	288,300	251,600
Plan amendments	-	793,167	-	-
Special termination benefits	475,793	55,846	-	-
Change in measurement date	2,024,412	-	181,170	-
Actuarial (gain) loss	(6,923,465)	3,798,195	41,562	85,423
Benefits paid	(2,057,875)	(1,800,123)	(127,176)	(139,021)
Benefit obligation at December 31,	<u>\$ 40,861,093</u>	<u>\$ 42,994,646</u>	<u>\$ 4,252,580</u>	<u>\$ 3,768,424</u>
Change in plan assets:				
Fair value of plan assets at January 1,	\$ 47,431,122	\$ 42,660,570	\$ 324,951	\$ -
Actual return on plan assets	6,118,260	6,514,829	52,292	44,031
Employer contributions	-	55,846	448,299	419,941
Change in measurement date	3,134,855	-	311,169	-
Benefits paid	(2,057,875)	(1,800,123)	(127,176)	(139,021)
Fair value of plan assets at December 31,	<u>\$ 54,626,362</u>	<u>\$ 47,431,122</u>	<u>\$ 1,009,535</u>	<u>\$ 324,951</u>
Funded status of plan:				
Funded status at December 31,	\$ (13,765,269)	\$ (4,436,476)	\$ 3,243,045	\$ 3,443,473
Contributions for fourth quarter	-	-	-	(356,700)
Unrecognized net actuarial gain	16,588,223	6,794,907	799,893	1,085,964
Unrecognized prior service cost	(2,024,449)	(2,291,239)	-	-
Unrecognized net transition obligation	2,062,887	2,243,402	(2,085,500)	(2,245,900)
Accrued benefit costs	<u>\$ 2,861,392</u>	<u>\$ 2,310,594</u>	<u>\$ 1,957,438</u>	<u>\$ 1,926,837</u>
Weighted-average assumption as of December 31,				
Discount rate	7.75%	7.00%	7.75%	7.00%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

The plans were measured as of December 31, 1999 and September 30, 1998 in the above table. During 1999, this change in measurement date established December 31 as the measurement date for all plans and did not result in a material impact to the plan assets or benefit obligations.

The benefit obligation is in excess of plan assets for certain non-qualified plans. The benefit obligation and fair value of plan assets for these plans were \$153,888 and \$0 and \$49,257 and \$0, respectively as of December 31, 1999 and 1998.

Notes to Financial Statements

12. Pension Plans and Other Postretirement Benefits (Continued)

The assumed medical inflation rates are 5.5%, reducing by 0.5% in 2000 and will remain at 5.0% thereafter. The effect of a 1% increase in the assumed medical inflation rates would be to increase the postretirement benefit obligation as of December 31, 1999 and the 1999 PBOP costs by \$340,529 and \$45,955, respectively. The effect of a 1% decrease in the assumed medical inflation rates would be to decrease the accumulated post-retirement benefit obligation as of December 31, 1999 and the 1999 PBOP costs by \$279,337 and \$33,374, respectively.

CWC also has a 401(K) plan, which covers substantially all its employees. CWC matches up to 40% of an employee's contributions in PSC stock, subject to a \$1,040 limitation. The value of the match was \$320,000 and \$329,000 in 1999 and 1998, respectively.

13. Water Rates

During 1999 and 1998, the Company obtained rate increases designed to provide additional revenues of approximately \$220,000 and \$1,973,000, respectively, on an annualized basis.

On March 6, 2000, the ICC approved a rate increase for the Company's Candlewick division. The rate increase of 104% is designed to increase revenues \$409,392 over the level in effect at the time of the filing.

14. Affiliated Company Transactions

The Company has service agreements with CWC and other affiliates. The types of services rendered between these entities relate to general supervision and administrative functions, long-range planning, tax, accounting, financing, engineering, legal and other specialized support.

Payments made for these services to CWC amounted to approximately \$1,435,111 and \$1,116,706 for 1999 and 1998, respectively. Amounts owed to CWC by the Company amounted to \$415,120 and \$286,295 at December 31, 1999 and 1998, respectively.

Amounts owed to other affiliates by the Company amounted to \$31,635 and \$27,033 at December 31, 1999 and 1998, respectively. These amounts are reflected in accounts payable in the accompanying balance sheets.